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SOCIAL ACTION

THE CAPITALIST WELFARE STATE

By Charles H. Seaver

25¢

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Our topic this month, "The Capitalist Welfare State," is presented by Charles H. Seaver, who brings to his task an unusual combination of scholarship, professional experience, and lay churchmanship. He has been a school administrator, a management official in a large publishing house, and a consultant in industrial relations. He is the author of several textbooks on economic subjects and was for a number of years engaged in editorial work for the National Association of Manufacturers.

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—F. E. J.

The Capitalist Welfare State

A Confusion of Tongues

The ancient story of the Tower of Babel (Genesis, Ch. II) illustrates the trouble that may arise from a confusion of tongues. When the people failed to understand one another's speech, they had to leave off building the city.

What are words? Webster's dictionary states that a word "symbolizes or communicates an idea, through conventional association with some fixed meaning." The continuous invention of words has probably aided communication (though some critics think we could do better with less words), but only when some "fixed meaning" has been shared by those who communicate. When the meaning of widely used words is unfixed or distorted, among people of the same society at the same time, communication is confused. We are then not speaking the same language.

Aren't many of our current conflicts of opinion caused or at least sharpened by such distortion of words—whether by sheer misunderstanding or for a purpose?

We all have unpleasant reactions to some words when we hear or read them—emotional or physiological reactions, or both. For example, some persons' blood pressure is raised by the last two words in the title of this article. Just what idea the term "welfare state" calls up in their minds may vary, but to them it is something poisonous. "Socialistic" is another disturbing word to probably more persons. It suggests to them communism and all the evils we have seen in communist regimes. To some even the term "social," as in social science, is obnoxious. "Collective" is "bad," too; it suggests something other than "individual"; but our government has ventured to use it in the term "collective security," in defiance of isolationists. "Statism" was coined some years ago as a more dreadful word than "socialism"; but "socialism" seems to have won out in usage,

having the advantage of a corresponding adjective. (One couldn't call a public project "statistic.")

On the other hand, there are persons for whom the word "capitalist," which also appears in our title, has unpleasant association. They may feel that "capitalism" represents a social disease. In many countries it is regarded as a synonym of "imperialism" or "oppression." "Profits" and the "profit motive" may be put in the same class of "bad" words as "greed," "exploitation," and "selfishness." In the United States probably fewer of us now than a generation ago find the flavor of "capitalism" and "profit" distasteful. The unpleasant flavor lasts more generally, however, among many other peoples; it has not entirely disappeared in the United States. Some of us can remember the cartoons which pictured a capitalist as a fat man with a top hat and dollar signs decorating his coat, vest, and trousers. We rarely see such cartoons today.

In view of such differences in the ideas these two groups of words suggest, it may be worth while, before we go farther, to discuss the current meanings of the words in their relation to the American scene. Perhaps there is not really a contradiction of terms in our title. Certainly our economic system represents both "socialistic" and "capitalistic" ideas, which most of us do not find irreconcilable in practice. And this discussion of meanings may meet a large part of the purpose of this article.

"Creeping Socialism"

Let us look first at the terms "socialistic" and "creeping socialism." They are used quite interchangeably, by opponents of a project or policy that involves government regulation or government service. It may be an existing regulation or service, or the proposal of a new one. The level of government may be local, state, or national. The motive of opposition may be a rational distrust of government, the protection of an established and socially useful property or enterprise, or merely a selfish or partisan interest. In any case the use of these bad words, "socialistic" and "creeping socialism," is offered as a clinching

argument. It is used even by those who welcome other equally "socialistic" projects or policies that serve their own interests. Of course we all use "socialized" services (many of them once opposed as "socialistic") which few if any of us would favor restoring to private enterprise.

Every collective or public enterprise, whether local, state, or national, may be called a step toward socialism—which may be briefly defined as government ownership and operation of the essential means for the production and distribution of goods and services. Communism may be regarded as a form of socialism with undemocratic management. In free countries, the people entrust to government at some level such services as they find, or expect, they cannot provide so well, if at all, individually or through private enterprise. This is in general the purpose for which they have set up their governments. As our wants multiply, socialism at all levels of government does creep forward. Compare the goods and services provided through government by a modern city or county, or a state or the nation, with what were provided a hundred or even fifty years ago. This trend has been inevitable, and will doubtless continue, if growth continues. But does it mean that we are committed to a complete socialism, which would involve the virtual extinction of a great part of what we know as private or "free" enterprise?

The facts suggest the answer. Along with increasing introduction of socialistic features—in extension of public services and in public regulation or control, or even operation, of various economic enterprises—private enterprise has grown faster and farther here than in any other country in the world. The rate has been accelerated since the turn of the century. Indeed the growth of private enterprise has been fostered by national, state, and local socialistic measures. Antitrust legislation has encouraged competition. The socializing of highways, waterways, bridges, and ports has been essential to the development of individual and corporate enterprise. Other public works, as in water supply, power supply, flood control, etc., have contributed

to agriculture, industry, and trade.¹ Free education, a socialistic measure, has been an important adjunct to "free enterprise." And so on. It is fair to say that creeping private enterprise has outcrept creeping socialism. This is probably as the American people would have it, inclined as they are to practical expediency rather than theoretical consistency, and committed to freedom of enterprise just as far as it serves the common welfare.

Capitalism as a Bogey

We find capitalism defined as "a system in which the production, distribution, and exchange of goods, the employment and reward of human labor, and the extension, organization, and operation itself, are entrusted to and effected by private enterprise and control under competitive conditions."

That definition cannot be applied literally to our system; indeed it never could have been. From the first settlement in the English colonies private enterprise has not been given free rein, without social control. That would be anarchy. Nor have "competitive conditions" been maintained throughout the private sector of our economy. There is much competition and in many fields a fairly free market; but there are also many private as well as public restrictions on "free" competition. To a large extent also private enterprise has had to take into its structure organized labor and to recognize other organized forces. As industry and commerce have shifted more and more from individual to group and corporate operation and control, so the people have demanded more economic intervention by their governments. The intervention has not followed any consistent plan, but in the main seems to have worked for the benefit and extension of private enterprise generally. Our system (if it is a "system") of capitalism, modified and adulterated, but yet dynamic and progressive, is not the "bogey" that critics

1. Even the electric power industry, which has bitterly opposed public power projects as "socialistic," whether federal, state, or local, seems not to have suffered seriously from such projects, though they are numerous. In spite of the increase in public power facilities (or perhaps stimulated by it), the private electric power industry has increased its production more than fourfold since 1929.

often hold up to us. It is not ideal, nor are any human arrangements. But we know of no other system in operation in a whole nation that has worked better, or indeed so well; and a democratic or free society gives ample opportunity for progressive improvement.

If "capitalism" ought not to be a "bad" word for us, neither ought such related terms as "profit" or the "profit motive." These terms may suggest to some the unbridled pursuit of self-interest by both individuals and groups regardless of others and without exercise of social responsibility. In that extreme interpretation profit and the profit motive are of course inconsistent with either Christian principles or any ethical view of human relations. So would business in general and other economic activities be, if thus interpreted. But we know that self-interest, family interest, or the collective interest of an economic group is a normal and usually necessary incentive—but not the only incentive—to most economic activity. A business enterprise cannot long be carried on without profit—at least excess of income over expenses; and investors cannot be expected to take risks in new business ventures without hope of profit. We find a motive similar to the "profit motive" present in most occupations, though more conspicuous in some than in others. To condemn "profit" or the "profit motive" outright seems to be to ignore a powerful and persistent aspect of human nature and human relations.²

William Vickrey, economist, has said: "No large-scale high-

2. Reinhold Niebuhr, in a notable symposium recently published, has noted: "Self-interest . . . is too powerful and persistent to be simply suppressed and transmuted. . . . Even if individual life could rise to pure disinterestedness so that no human mind would give the self . . . an undue advantage, yet it would not be possible for collective man to rise to such a height. The institution of the family would alone prevent a simple substitution of 'motives of service' for 'motives of profit.' For the self as 'breadwinner' will seek to serve his family by seeking gain for his toil. But self-interest must be allowed a certain free play for the additional reason that there is no one in society good or wise enough finally to determine how the individual's capacities can best be used for the common good, or his labor rewarded, or the possibilities of useful toil, to which he may be prompted by his own initiative, be rewarded." (*Goals of Economic Life*, Harper, 1953, pp. 445-6.)

productivity society has yet been successfully operated that has not relied to some extent on self-interest as an organizing force."³ He might have added that voluntary cooperation has been another and an indispensable reliance—which involves awareness and practice of community. To quote Niebuhr again: "Any community will devote economic productivity to other than primary needs as soon as these primary needs are tolerably met. . . . Human culture depends in fact upon the ability of an economy to establish margins of welfare beyond the satisfaction of primary needs."⁴ The challenge, therefore, seems to be not to try to spurn "profit" and "the profit motive," but to add motives that may become more compelling. The economist quoted above would have us provide in our economic life more choices where self-interest is not inconsistent with altruism; emphasize the necessity in any sort of community for its members to look beyond their own interests; and make it easier to trace the consequences of social and unsocial behavior. There has been notable progress in this direction. Would many who can look back 40 or 50 years deny that businessmen today, by and large, have a keener sense of social responsibility than was prevalent then?

Another aspect of capitalism has developed another "bad word"—"big business." To many this indicates a great if not really monopolistic concentration of private economic power. Statistics do show a vast growth of great financial and industrial organizations within the past 100 years. Naturally many fear that this trend will continue indefinitely—a creeping bigness that will eventually destroy small business. The trend, however, has not been so notable in the past 25 years, in spite of certain advantages that size gives an enterprise in many fields—for research, for obtaining raw materials, for mass production and distribution, etc. Birth and death go on in industry and commerce, as among trees in a forest. The magazines we read abound in national advertising by companies unknown 50 years

3. *Goals of Economic Life*, *op. cit.*, p. 177.

4. *Ibid.*, p. 455.

ago. And new businesses spring up each year in surprising numbers and variety.

There has been controversy also as to the use of political power by industrial and business (or professional) interests in one field or another, through contributions, direct or indirect, to the election of members of Congress or state legislators. Various members of the Senate and the House of Representatives and the whole leadership of the legislatures of some states are reputed to be owned and operated by business interests in one field or another. There are newspapers, magazines, and other media of public communication which are said to be similarly controlled for the purpose of suppressing or misinterpreting news. Freedom to know may thus be curtailed for many people. This is not a new phenomenon, and other than business groups misuse supposedly reliable channels of public information; but it can hardly fail to be exposed sooner or later, even though public opinion may be for a time diverted to other issues. Freedom of communication, however, is a right to be carefully safeguarded.

In a democracy, what a well-known economist, J. K. Galbraith, has called "countervailing power" is likely to be raised by concentrations of private economic or political power. Of this we have had many examples. Coal mine owners exploited their workers, and the miners eventually developed countervailing power. When labor unions become irresponsible, the public finds ways to curb them. When farmers found themselves at a disadvantage in marketing their crops through buyers who controlled the market, they organized cooperatives. When unsatisfactory service has been given a community by a water supply company, the people through government have provided their own. And so on. Concentration of private power is likely to meet countervailing power—if not outside government then from government. When government itself encroaches too far on private freedom—especially individual freedom—the people find remedies in their courts and at the polls. Constitutional

safeguards have so far preserved a shifting but tolerable balance in the distribution of political as well as economic power.

Altogether it appears, as Frederick Lewis Allen recently pointed out, that the word "capitalism" meant half a century ago, and means today in many other countries, "a way of doing business quite different from the current American way." Also the terms "free enterprise" and "socialism" carry "an overload of traditional meaning which is not very helpful in defining what we may intend to convey about the exact state of economic and political affairs today."⁵

Is Welfare a Public or Private Responsibility?

Strange as it may seem, "welfare" is a word that is looked at with some suspicion by the most uncompromising individualists. Yet it has kept fairly good standing, by and large. Its meaning is generally understood as the dictionary records it, "a state or condition in regard to well-being; especially conditions of health, happiness, prosperity, or the like; negatively, exemption from evil or calamity." What raises more suspicion, however, and even rather violent reaction, is the idea of any such relation between government and individual or social welfare as may be expressed in the term "welfare state."

There is some ground for this reaction, even in the definition of the term that is found in a dictionary at hand, which suggests that the "welfare state . . . assumes a major share of responsibility for the individual and social welfare of its citizens." If the term "major" largely rules out the responsibility of individuals, families, and private groups for their own welfare, then the "welfare state" is a structure of paternalistic or indeed "totalitarian" government which may well be viewed with alarm.

But this extreme conception of the relation of government to the welfare of its citizens is likely to be raised as a "bogey" whenever a proposal is made that the people act through their local, state, or federal government to protect or "promote the general

5. *The Big Change* (New York: Harper, 1952), pp. 234-5.

welfare" by aid to underprivileged individuals, families, and larger groups, or by provision of needed services not otherwise available to all the people. There are no rigid lines in our democratic society between public and private responsibility for welfare, between voluntary and governmental organization of welfare activities. There is no real issue in our society between extremes. It is not a case of "either . . . or." The American people are inclined, at least in the long run, to do the things they think need to be done through whatever agencies are most conveniently available, whether consistently or not with some theory of government.

One of our most eminent economists, John Maurice Clark, has said of our American economy and our way of thinking about it that we have found it impossible "to preserve unchanged a past in which the forces of change were an inseparable part." It has been transformed "into something which is not recognizable as the 'capitalism' or 'individualism' of the mid-nineteenth century. The society is taking responsibility for basic elements in the welfare of its members." He recognizes that such change "raises the problem of the effect on the individual of doing so much for him without commensurate obligations laid upon him in return." This, he says, is a challenge to the members of a "voluntaristic and self-governing society . . . to develop the techniques and the ethics of voluntary working together."⁶

In the same volume an eminent social philosopher, Frank H. Knight, maintains that "the individuals who function in society have been chiefly the product of society, only in small part their own creation." He notes the conflict of "rights": that "legitimate possession of productive capacity confers some rights," as well as "corresponding obligations," but that "every person also has a 'right' to an equal or fair start in life—and beyond that has some claim to a decent human scale of living, regardless of ability to make a sufficient productive contribution

6. *Goals of Economic Life*, op. cit., pp. 49-50.

to provide it. In fact there can be no question that the strong (and/or fortunate) must help to bear the burdens of the weak (and/or) unlucky. This is not only moral idealism; society could not otherwise survive. It is most obvious in the case of the completely helpless, or not gainful, who as individuals and at any given time include a substantial majority of the population—children, the aged, many of the women, and all who lack usable or salable productive capacity for any reason ('lack enough to live on')."⁷

American statesmen, from the beginning of our national government, have recognized the responsibility of government in the field of welfare, though the concern of course has changed with changing needs. Jefferson was restating an ancient principle when he wrote in the Declaration of Independence that governments were instituted among men to secure, among their "unalienable rights," their rights to "life, liberty, and the pursuit of happiness." This purpose was re-echoed in the Preamble to the Constitution: "to promote the general welfare." One might likewise quote Presidents Lincoln, T. Roosevelt, Wilson, F. D. Roosevelt, Truman, and Eisenhower to similar effect with reference to the needs of their respective times.

In his recent message to Congress on Social Security (January 14), President Eisenhower said: "The human problems of individual citizens are a proper and important concern of our Government. One such problem that faces every individual is the provision of economic security for his old age and economic security for his family in the event of his death. To help individuals provide for that security—to reduce both the fear and the incidence of destitution to the minimum—to promote the confidence of every individual in the future—these are proper aims of all levels of government—including the Federal Government." And in his message on medical care a few days later (January 19) he stated: "Among the concerns of our Government for the human problems of our citizens, the subject of

7. *Ibid.*, pp. 227-8.

health ranks high. For only as our citizens enjoy good physical and mental health can they win for themselves the satisfactions of a fully productive, useful life."

We need hardly cite or quote interpretations of the "general welfare" as including education. Public responsibility for educational opportunity was long ago recognized. In most of our states education is recognized as a state function requiring state supervision and support with varying delegation of responsibility to local units of government, while at the same time education at all levels is provided in schools and colleges maintained by churches, nonsectarian groups, and private foundations. The federal government also has set up many educational institutions and furnished aid to the states for educational purposes. Its total expenditures in the field of higher education (including veterans) in the fiscal year 1947 exceeded two billion dollars.⁸

Also significant of the development of the federal government's concern for welfare was the placing of various government agencies by the 83rd Congress in a new Department of Health, Education, and Welfare, with its head having Cabinet rank.

Growth of the American Type of Welfare State

In comparisons between our government and the governments of most other nations—especially in the function of the state—it is often overlooked that in this nation the "state" (as the term is used in political science) is not only the federal government but also the governments of our forty-eight states. Other nations have subordinate states or provinces, but in most cases the relationship is quite different. In the United Kingdom, France, Germany, Sweden, and Italy, for instance, the functions of government are more centralized than here. The same is true of Mexico, Brazil, and Argentina; of Australia and Japan: To compare fairly the welfare responsibilities undertaken by the

8. J. E. Russell, *Federal Activities in Higher Education* (King's Crown Press, Columbia University, 1951).

"state" in any of those countries, one would need to include the welfare provisions of government at all levels—even city and county governments. It is desirable, therefore, to include all levels of government here to find out to what extent the United States has become a "welfare state."

Nor can the vast development of voluntary and private welfare agencies in the United States be properly overlooked. For, in so far as they meet welfare needs, independently or in co-operation with government at any level, to that extent the action of government (except perhaps in supervision) may not be required. Whether government agencies supplement private agencies, or *vice versa*, depends upon the type of service rendered. This phase of provision for welfare will be discussed briefly later.

In the United States, recently settled as compared with most countries in the Old World, the town or county, or some other community set-up within the limits of convenient communication, was for most people at first the only unit of government with which they had much to do. Communication depended upon transportation, which had undergone little improvement for a thousand and more years. The distant government authority did not reach their everyday lives in many ways. This was true for a long time in much of the Atlantic seaboard area, and was repeated on the westward-moving frontier. In these circumstances people developed self-reliance and self-government.

But they felt and exercised responsibility for protection and promotion of one another's welfare and provided some simple community services, besides such services as were available from local or itinerant private enterprise. Family ties were strong, and families generally were expected to take care of their relatives.⁹ The farm family was a welfare institution in itself. The "district school" and the private academy provided educational

9. See Elizabeth G. Hoyt, *American Income and Its Uses* (New York: Harper, 1954), Part II, "The Family."

services. As communities grew and new needs arose, the people tried to meet them both by voluntary cooperation and through town, county, and city governments.

These are still our primary units of government. Though states have taken over some of their functions and exercise more detailed control, local self-government has survived. During the past fifty years, as conditions have changed, most of our cities and a majority of our 3,000 counties have vastly expanded their welfare services as their resources permitted and their people demanded. They have had both state and federal aid in recent years, without which many of them could not have met their needs. In the early 1930s thousands of communities were swamped by the need of aid for families of the unemployed. State and federal assistance was furnished in various forms, and the local burden was reduced to tolerable size.

This experience of the 1930s ushered in a new era of awakened responsibility for welfare. It had not only disclosed widespread need, but also had tested various ways and means of meeting it. The people became aware that this responsibility could not be borne by local communities and voluntary agencies alone. Both the scope and the distribution of the responsibility have undergone great change.

Our states have come to take larger responsibilities for the welfare of their citizens. The states vary widely in available resources, in their attitudes toward welfare, and in the influences affecting legislation. One after another, however, all have taken some steps toward making up the evolving American pattern of a welfare state. This is a structure very different from the specter of "regimentation" that is often held up before us by those who refuse to recognize present realities. It is very different also from the Utopia that is alluring to dreamers who have undue confidence in the perfectibility of mankind and ignore the mixture of motives and values that gives a dynamic vitality to our economic, social, and political institutions. They are inclined also to overlook the importance of the wide distribution

of authority and responsibility that is characteristic of our American system and is a safeguard of freedom.

Let us look at a few relevant facts about New York State, which for more than thirty years has had a leadership among the states in at least some phases of welfare as a state function. Several reasons may be assigned for this leadership. The state has large resources, being first in population, in value of manufactures, in per capita wealth, and in various other respects. Having the nation's greatest metropolitan center at the principal port of entry, it has a population of many races and national origins, with corresponding problems of social adjustment. It not only has the largest urban population but also ranks fifth in rural population (1950 Census). The social pressure for extension of state welfare services, in quantity and variety, has been probably greater than in many other states. But another reason for the continuous growth of state welfare services seems to have been a modernized structure of state government and a succession of governors, both Democrat and Republican, who have been responsive to increasing needs and have had unusual influence on state policy.

With a state budget of over a billion dollars, nearly 60 per cent has been used for local assistance—for education, relief, housing, etc. Among state institutions maintained are colleges of agriculture, ceramics, forestry, home economics, industrial and labor relations, and maritime science; sixteen junior colleges (agricultural and technical institutes), and eleven teachers colleges. The state maintains about forty state parks, besides its Adirondack Forest Preserve of more than two million acres. The state maintains about thirty hospitals of various types. It has made loan and subsidy contracts with local housing authorities to build low-rent developments to house nearly 50,000 families. It has had minimum-wage, equal-pay (for women), and anti-discrimination (race, color, creed, etc.) laws in effect for some years. The expenditures involved in these activities are in addition to the expenditures of cities and counties for such services except for overlapping on account of state grants.

New York City's budget alone is over a billion dollars. Comparison of these services with what were provided by the state fifty or even twenty-five years ago would reveal the extent of increased concern for welfare.

Only one state has been used here as an example. To varying degrees all forty-eight of our states would show substantial progress in this direction.

The National Government's Part

The growth of welfare services, however, has been most conspicuous in the case of the federal government. Its direct welfare services fifty years ago were comparatively insignificant. It was sometimes accused even later of more interest in the welfare of hens, hogs, and heifers than in the welfare of children. The reason was doubtless that families were supposed to be able to take care of their children; if not, the community or possibly the state might help. And in the early 1930s, when a severe depression set in, with perhaps fifteen million unemployed, it was the policy of government to give aid to shaky banks, in the hope that stabilizing the banks would set the economic machine in motion and so eventually reduce unemployment. This indirect method of relieving acute distress, however, was not popularly welcomed. More direct action was wanted, and the attitude of the federal government was changed with the coming of a new Administration. Henceforth, its share in responsibility for welfare was more fully recognized and exercised. A changed and changing situation made the older attitude obsolete.

The United States had been undergoing what has been called the "second American revolution" since the turn of the century (or earlier—it was not sudden change). It was becoming predominantly an industrial nation, rather than mainly a farming nation. Technology was making great changes in our ways of life—both rural and urban—and in our human relations. We now have a mobile population—moving from one state to another, from farm to city, from city to suburbs, with little

difficulty. Communication also is no longer barred by distance. We have common access to information or misinformation, to emotional appeals of all kinds, to "rabble-rousing" or sober advice—as we may choose. The area of common concern has widened. The welfare of one community, or of the people of one state, affects and is affected more and more by the welfare of others.

On account of increased mobility, conditions in Oklahoma may cause a trek to California, or conditions in Mississippi cause migration to Michigan, or conditions in Puerto Rico cause a movement to New York. The changes in transportation make a reduction in purchasing power of Kansans a matter of concern to Pennsylvanians. New factories in Georgia may cause unemployment in Massachusetts. And so on. Interdependence now has many aspects; it is no merely local affair.

So, for some degree of equalization of the welfare of our people, and for fair distribution of resources for this purpose, the national government has undertaken increasing welfare services—supplementing or aiding, but not ordinarily duplicating, the services of lesser units of government or the ever-important voluntary services that provide a more direct and intimate outlet for personal concern.

It seems unnecessary to describe here the various provisions of the Social Security system, which has now been in effect for about seventeen years. It includes old-age and survivors insurance (supported by worker-employer payments); unemployment insurance and employment service (both federal-state); grants to states for aid to the aged, the blind, the totally disabled, and dependent children; and grants to states for a variety of important health and welfare services for mothers and children. The number of persons now receiving old age and survivors insurance benefits (including children) has passed 4 million; the number receiving old-age assistance was over $2\frac{1}{2}$ million in 1952; aid for dependent children, about 600,000 families, with about $1\frac{1}{2}$ million children; aid to the blind, about 100,000; and aid to the permanently disabled, about 150,000. For vet-

erans, special insurance, increased pensions, medical care, educational opportunity, and other benefits were provided in other legislation. There are various gaps in these federal-state welfare plans, where urgent needs are left to voluntary or local agencies, or not met at all. But our national and state governments are committed to these types of welfare services.

Other Welfare Agencies

Thus the American "welfare state" should be appraised in this three-fold aspect, as representing the welfare services of local, state, and federal governments. Its private complement also should be taken into account: the vast area of voluntary service unmatched in extent in other countries. It includes churches, social service organizations, fraternal groups, labor unions, foundations, etc. As the public services have increased, so also have the services not provided through governmental channels.

And in no other country have individual and group health and accident insurance, hospital and surgical insurance, and retirement insurance, along with the older types of insurance, reached so large a proportion of the population as in the United States. These forms of insurance outside the field of government are furnished by private companies—mostly "mutual" and non-profit-making—more or less under the supervision of state insurance departments. More than forty million persons are enrolled in Blue Cross hospitalization plans; more than twenty million in Blue Shield medical-surgical plans. The cost of medical care has been thus spread for those who can pay the moderate rates of membership. While these types of voluntary insurance cannot be counted among functions of the American "welfare state" if that term includes governmental operations alone, they are a phase of the increasing determination of our people to extend welfare services.

Christian churches have been active in promoting welfare services of many kinds in both urban and rural areas. Their members, prompted by the teachings of Jesus and their humani-

tarian impulses, have been active in voluntary welfare organizations far and wide, as well as in the organized welfare activities of their denominations and councils and local churches. But, more than that, as their clergy and social workers have come in contact with needs, often desperate needs, that require action of local, state, or federal government, the churches have supported such action. This is true not only of the Protestant, Roman Catholic, and Orthodox churches, but also notably of the various branches of the Jewish faith. For as Jesus gave us the second Great Commandment, "You shall love your neighbor as yourself" (Matthew, 22:39), so also in the Jewish tradition God spoke through Moses, "You shall not harden your heart, or shut your hand against your poor brother, but you shall open your hand to him" (Deuteronomy, 15:7).

This article started with some discussion of words and their meanings. It may have been appropriate to bring in also the word "neighbor," as it appears above; and it may be worth while to emphasize the broadening of its meaning for most Americans in recent years.

The American welfare state has been concerned increasingly not only with the welfare of its own citizens but also with the welfare of our neighbors in other lands. Our churches have not only contributed greatly to meet the world's need beyond our borders, but also have led in pressing our government for relief of other people's distress—as it has done on a large scale. As the need continues, we trust our aid will continue—not only in relief but especially in such forms as encourage self-help—as we may well do without impairing our resources or slowing up our economic machinery. In fact, the economic development of nations with underdeveloped resources is important to our own national welfare.

The Limits of Welfare Services

It has been indicated above that provision of public welfare services in the United States has largely increased, within the past twenty-five years, and that even our composite capitalist

welfare state has not fully met some welfare needs that are beyond the reach of the individuals and families or the resources of our various voluntary agencies.

The lengthening of the average span of life is increasing the proportion of the "aged" (that is, over 65) in our population. Life expectancy was 49 in 1900, 68 in 1950. In 1950 we had in the continental United States over 12 million people over 65—about 8 per cent of the population, as compared to about 4 per cent in 1900. About one third of these were classified as earners and wives of earners. The proportion of population under 18 increased, too, as infant mortality was reduced, while the proportion of youthful workers fell off on account of increased opportunities for schooling. These trends may seem to indicate that fewer working Americans, in proportion to population, will have to support, in one way or another, more senior and junior citizens, while making provision also for their own families and their own retirement. In so far as more persons can and do provide for their own retirement, however, through savings and pension plans, they will not be dependent on public assistance when their working time is past. And the spread of educational and economic opportunity reduces the numbers so dependent. The number of "gainful workers" is bound to be a minority of the population; but we need not look forward to a steadily diminishing minority working to support an ever-increasing majority.

Our whole system of collective welfare services, both governmental and private, depends mainly, of course, on the earnings and the savings of people. It is supplemented by contributed personal service, welfare work that is done without pay. This personal voluntary service, however, extensive and important as it is, we may assume here without discussion. We need to consider the amount and distribution of the national wealth and income as largely determining the scope of our American version of the welfare state.

We have learned, in the process of trial and error, that our rising national income, with a rising level of living, is a product

of many factors. We recognize among these factors our natural resources; the energy and ingenuity which our people have shown in using them; our freedom from external interference; and our development of a capitalist system which involves a wide area or high degree of free enterprise, free competition, free organization, and free use of savings—with only such “socialistic” limitations as the people from time to time have deemed necessary or expedient. These features of our economic system have resulted in an amazing productivity. Other equally important factors, sometimes overlooked, are the widening distribution of income, with its purchasing power, and the trend toward spread of economic opportunity—an important aspect of freedom.

Our national income has increased in less than twenty-five years from around 70 to over 300 billion dollars (more than double in dollars of the same value). The per capita “disposable income” of our people (also in dollars of the same value) has increased about 50 per cent. Our “welfare state,” with its public and private welfare services, has been built on this foundation.

We must not ignore the fact that this foundation not only makes possible our “welfare state,” but also that the need to preserve the foundation may impose limits on welfare services. Taxation is required for the support of governmental welfare services—local, state, and national. And taxation has its effects, sometimes beneficial, sometimes not, on the foundation that has been mentioned. We need to consider both the benefits and the burdens.

Modern types of taxation change the distribution of income within a society—especially such as the tax on corporate income and the progressive tax on individual incomes. This is indeed a secondary purpose of such taxes—granted the major purpose of “getting the most feathers with the least squawk.” Moreover, if taxes that met revenue requirements took an equal percentage of all incomes, a heavier burden would be imposed on low incomes, which include a small or no margin above the cost of living. Thus the mass purchasing power required by mass pro-

duction would be lowered. Income taxes with a progressive feature seem to have a permanent place in our tax system.

But these taxes may be levied to an extent that will affect the foundation of our welfare services—if they rise so far as to affect the incentives of people to economic venture and investment and affect unfavorably the amount and kinds of production. Even though there are exemptions that encourage private contributions to welfare, the incidence of taxation on productivity of our economic system must not be ignored. It has not been proved that current taxation of incomes has seriously affected production or productivity. The greater part of the revenue has been used in war or defense production and other related enterprise; otherwise a budget at the present level would probably have had a depressing effect.

But the present heavy taxation cannot be attributed to welfare services. The proportion of federal revenue now used for such purposes is but a small fraction of the total net national budget of about 75 billion dollars (President's estimate for next fiscal year—1954-5): about 5 per cent, without veterans' benefits.

The federal government also levies a tax on estates valued above \$60,000 left by deceased persons—with an exemption of that amount, another exemption of 50 per cent for a surviving wife, and one of \$25,000 for "charitable gifts." The tax may range from 7 to 61 per cent. We cannot enter into the complexities of the law here. But an additional credit (up to 80 per cent) is allowed for state inheritance and estate taxes levied, and thirty-two states levy such taxes at varying rates. There is also a federal gift tax, covering gifts to "spouse" and other individuals, so that this avenue of escape from the estate tax is closed. The estate tax of course results in a considerable redistribution of wealth—perhaps not always with perfect justice or practical expediency; but it is a form of taxation defensible and probably irrevocable.

Other types of taxation may be mentioned incidentally. Our federal, state, and some local governments levy excise taxes.

These are really taxes on spending. The federal excises include alcoholic liquors and tobacco, assumed perhaps to be unnecessary or ill-chosen items of consumption; gasoline, as payable frequently but in small amounts; on automobiles, as disguised in the price; on transportation, except locally or by primitive means; and on various other goods and services classified as luxuries—with some exercise of imagination. The states also, while thirty-two of them collect estate or inheritance taxes on occasion, depend substantially on excise taxes, including some of the same items; and some local governments find excises on retail sales convenient. Excises on necessities work against welfare; excises on "luxuries" are more easily justified, but a narrow interpretation of "luxuries" of course reduces the possibilities of revenue from this source.

It is still unfortunately true that local governments, for their major welfare expenditures (education, also health and relief), must depend for revenue mainly on an antiquated system of real estate taxation. This is being supplemented more and more by state grants—in some states reaching toward one half of the cost of maintenance of schools; but the support of local education, health, and other needed welfare services is still a serious unsolved problem.

The federal government uses only a small proportion of its revenue for such purposes, as has been noted. The burden of supporting public welfare services is borne largely by state and local governments. This is advantageous in that such needs are then subjected to local appraisal and understanding. But practically there are also serious disadvantages. There are great inequalities among local communities and among states in the resources available to meet their welfare needs. Often the greatest need is found where there are the least resources. For this reason states have taken responsibilities for welfare services that communities could not provide. For the same reason, the federal government has made grants to the states—with some safeguards as to their use. It seems clear that this policy will expand—especially when, as we hope, the current vast federal expendi-

tures for national security against external aggression can be safely substantially reduced.

Has the heavy taxation by federal, state, and local governments, under the stress of the need of extensive relief during the depression of the 1930s and the subsequent needs of defense and war, weakened the foundation on which welfare services must rest? The total proportion of the national income that passes through the hands of government (at all levels) has been estimated as averaging over one third during the past ten years. Most of it, of course, is redistributed in one form or another among the people; the governments don't hoard it. This proportion, however, is generally considered excessive; some economists consider one quarter as a limit, if taxation is not to curb seriously the flow of capital and income into the private enterprises whose health and growth are essential to a mainly capitalist economy.

It seems that this high proportion of the national income diverted into governmental channels has not so far seriously weakened our economy—except as natural resources have been consumed, and human effort expended, for purposes of military security and war operations. These resources would have been used or conserved for more constructive purposes in a peaceful world. In the field of private business enterprise, the number of firms engaged in 1929 was 3,029 thousand; in 1953, 4,212 thousand. Within a shorter period, the number of new businesses started in 1940 was 275 thousand; in 1952, 364 thousand. The number of businesses discontinued in 1940 was 318 thousand; in 1952, 300 thousand. Business investment in plant and equipment increased from \$5.5 billion in 1939 to \$27.8 billion in 1953 (according to U.S. Department of Commerce figures reprinted in the *New York Times*, January 31). Apparently the mounting taxation since 1940 has not been disastrously discouraging to the enterprise of the people, though economists may find that it has been more discouraging than these figures superficially indicate.

Nevertheless, it seems probable that as the heavy taxes now required by the federal government for defense are reduced—as we hope—the people's needs for welfare services can be more adequately met with somewhat lower taxes and without strain on our dynamic economy.

We shall doubtless always have need also for the many types of voluntary operations that have been characteristic of our capitalist welfare state. Indeed we shall want more of them. The Red Cross, the Blue Cross and Blue Shield Plans, National Foundation for Infantile Paralysis, American Cancer Society, American Heart Association, Community Service societies, church welfare programs, and the many Community Chests are examples. The many private foundations that make grants for research and other welfare projects are indispensable. The mushrooming of private pension plans in business, labor, and professional organizations has been a significant feature of our increasing concern for welfare. In public service, including teaching, such plans have long been common—as also in religious service. The many insurance companies of various types have enabled countless persons to provide for their own old age and for the welfare of their survivors. "Security," in so far as public and private agencies can provide it, has been an objective of both public policy and private effort in the United States.

Again there is no convincing evidence that the increasing provision of these measures has reduced individual initiative and individual responsibility or retarded economic progress.

"Welfare" Includes Freedom

It is perhaps worth while to add some discussion of the relation between welfare and freedom, where some critics of extension of public welfare claim to find conflict. Freedom is but an aspect of welfare. The "general welfare" includes the "blessings of liberty." And, conversely, there is no durable or complete welfare without freedom.

Real freedom for all must involve equitable distribution of opportunity—as equitable as possible consistently with the in-

stitution of the private family, the variety of environments, and the vagaries of human nature. We need in both economic and noneconomic fields the services of all who can contribute useful service to the common welfare—and there is a great fund of superior quality of potential service latent in unpromising settings. The spread of opportunity cannot simply be installed overnight by edict. It must evolve, partly by education, partly by access to jobs, partly by social attitudes free from prejudice and unwarranted discrimination. The development of wide opportunity to make the most of one's capacities with the exercise of social responsibility is perhaps the measure, certainly a measure, of the amount of freedom we shall be able to preserve.

Our form of the welfare state also concentrates in no one place decisions of what welfare services shall be provided. That would be a restriction of freedom. These decisions are made by the federal government, by the state governments, and by local governments; also by countless voluntary agencies, church organizations, business enterprises, labor unions, and other groups throughout the country. These all share the responsibilities of welfare services.

It was only a hundred years ago that a Rhode Island farmer threatened to shoot Henry Barnard if he ever caught him on his land advocating "such heresy as the partial confiscation of one man's property to educate another man's child."¹⁰ But this heresy became law and a cornerstone of American democracy. We have traveled a long way since then in support of not only public education but also a broader field of welfare services. The feeling expressed by the Rhode Island farmer often finds vigorous expression today as to one or another service; but the American people seem to be committed to spreading opportunity—so that all our people may share the "blessings of liberty," meet their material needs, and have opportunity to improve the quality of their lives.

—CHARLES H. SEAVER

10. F. Emerson Andrews, *Philanthropic Giving* (Russell Sage Foundation, 1910).

APPENDIX I

EXTENT AND COST OF MEDICAL CARE

A nation-wide consumer survey of medical costs and the extent of medical care—the first in twenty years—has recently been concluded by the National Opinion Research Center of the University of Chicago under a grant from the Health Information Foundation. The method used was a national sample subdivided by age, sex, income, size of family, occupation, and region. The period covered is the twelve months prior to last July—corresponding to the fiscal year 1953 of the federal government. The four reports were summarized in the *New York Times* (January 24). It seems appropriate to cite some of the findings here.

During the year the expenditures of American families for medical care (including surgery, dentistry, etc.) were over 10 billion dollars. This is exclusive of nearly 2 billion dollars spent by local, state, and federal agencies and private charity. The expenditures were divided, by percentages: physicians' fees, 37.2; dentists' fees, 15.6; hospital charges, 19.8; medicines, with prescriptions, 14.7; other medical goods and services, 12.7. The average annual cost per family was about \$205; but 3½ million families incurred charges above \$495, and a million families had charges equaling or exceeding the half of their incomes—500,000 of them having charges exceeding their total incomes. In the special field of dental care 44 per cent of all families incurred no bills—whether such care was needed or not. About 8 million families were in debt to hospitals, physicians, dentists, loan companies, and others for medical care.

Nearly 90 million individuals have some type of health insurance. Of these more than 87 million have some hospital insurance; 74 million have some surgical and other medical coverage (only about 3 million with "substantially complete physicians' services"). Hospital coverage is divided almost equally between Blue Cross and other insurance companies; medical and surgical

insurance by other companies exceeds that by Blue Cross and Blue Shield. A great expansion of insurance in these fields since 1940 is noted: hospital insurance from 9 per cent to 57 per cent of the population; surgical insurance, from 4 per cent to 48 per cent. These facts also should be noted: that most of this insurance has qualifications and limitations; that much of such insurance is not available, at least at similar rates, to the self-employed or employees in very small groups; that more than half of the families with incomes less than \$3,000 have no coverage at all; and that the total of health insurance pays only about 15 per cent of the total cost of medical care.

The general hospital admission rate for all families was 12 out of 100 persons a year—13 per 100 who had insurance, 10 per 100 who had none. The average stay was 9.7 days for both groups. There would be of course regional differences, since in many areas hospitals are "few and far between." The number of "surgical procedures" per 100 persons differed more widely: 7 among the insured, 4 among the noninsured.

Opposition to any plan for improving this situation is of course to be expected. Such nongovernmental plans as the Blue Cross were denounced as "socialistic" or dangerous to traditional private practice, when they were springing up in various parts of the country. Any government aid to current plans for pooling costs, such as the President has suggested, may arouse similar opposition—though but a slight step toward meeting the obvious need. The increasing public recognition of widespread need, however, is likely to bring about continuing extension of welfare service into the field of medical care.

APPENDIX II

WHAT HAVE WE GOT HERE?

Here in the United States we have not been constructing a system as such, but tinkering with and repairing and rebuilding, piece by piece, an old system to make it run better . . . accordingly we have arrived at a transformed product which might be likened to an automobile continually repaired, while running, by means of new parts taken from any old car which seemed to suit the immediate purpose of the repairers. . . .

At the turn of the century America seemed in danger of becoming a land in which the millionaires had more and more and the rest had less and less, and where a few financiers had a strangle hold, not only on the country's economic apparatus but on its political apparatus too.

This outraged the democratic spirit of the country, the national sense of fair play. So we went to work to change things—not by revolution but by a series of experimental revisions of the system. When it broke down badly in the Great Depression the repair work and reconstruction were pretty drastic, and some was foolish, but the same basic principle of unrevolutionary and experimental change prevailed. After some years of this there was considerable uncertainty whether the engine would ever run again without wheezing and knocking. But when World War II came along, we discovered that if Washington jammed the accelerator right down to the floor boards the engine began to run smoothly and fast. And when the war was over, and Washington released the accelerator, it still hummed. What had happened to bring about this astonishing result?

The answer, in brief, is that through a combination of patch-work revisions of the system—tax laws, minimum wage laws, subsidies and guarantees and regulations of various sorts, plus labor union pressures and new management attitudes—we had repealed the Iron Law of Wages. We had brought about a virtually automatic redistribution of income from the well-to-do

to the less well-to-do. And this did not stall the machine but actually stepped up its power. Just as an individual business seemed to run best when it plowed part of its profits into improvements, so the business system as a whole seemed to run better if you plowed some of the national income into improvements in the income and status of the lower income groups, enabling them to buy more goods and thus to expand the market for everybody. We had discovered a new frontier to open up: the purchasing power of the poor.

That, it seems to me, is the essence of the Great American Discovery. And it has its corollary: that if you thus bring advantages to a great lot of previously underprivileged people, they will rise to their opportunities and, by and large, will become responsible citizens. . . .

The United States has been demonstrating pretty convincingly that the system that works best of all, combining most of the genuine advantages of governmental responsibility and of private initiative, and avoiding the disadvantages of each, is one in which governmental intervention is limited and private industry and private associations have a great degree of freedom; and also that one of the mightiest advantages of this system is the way in which it diffuses very widely the decision-making power and the opportunities that go with it. . . .

Our sobering position of leadership in the world is founded upon the fact that we have not stood still. . . . We would do well to think of our accomplishment thus far as but the preface to what we may accomplish in the second half of the century if we can continue to invent, improve, and change—and can keep a good heart.

—Abridged from the book *The Big Change*
Copyright 1952, by Frederick Lewis Allen
Published by Harper & Brothers
Pages 285-6, 292-3

Editor's Commentary

Mr. Seaver's impressive exposition may be characterized, in the current political vernacular, as "middle of the road." He takes a thoroughly conservative position with reference to basic economic issues, yet demolishes the notion, often defended in recent years, that the proper role of government is negative in relation to economic development.

It has been suggested that the reader may miss an explicitly Christian approach to the problems discussed. We hope, however, that one contribution of the February issue on "Ways of Christian Social Action" has been to make clear the perspective in which this magazine tries to place all subjects with which it deals. At the same time it is well to reflect that the Christian motive is often expressed in a sincere and resolute effort to examine facts and ideas that are, in themselves, secular and perhaps technical in character but which have ethical and spiritual implications. There is no such thing as Christian economics, as there is no Christian physiology; but there is a Christian motivation that impels us to the study of any important subject and guides us in the utilization of the results of such study.

Mr. Seaver touches a live nerve when he discusses the profit motive. The Editor may have a special slant on this subject, but he is always disposed to point out that the profit *system* has to be evaluated in terms of its consequences in the production of goods and services and in the light of what we know of human nature. Appeal to the incentive of individual gain seems to be indispensable in order to keep production at a high level. That is to say, self-interest, as our author points out and as theologians remind us, is deeply ingrained. But the more basic it is and the more indispensable, in consequence, the profit *incentive*

is, the more necessary it is to keep that incentive under stern scrutiny. Self-interest is doubtless elemental, but selfishness is always evil, and self-interest is the gateway through which selfishness enters.

Not only so, but the growth of ethical motive is, in actuality, a progressive broadening of self-interest—an expansion of the self. As Mr. Seaver says, we find in the study of foreign trade that "the economic development of nations with underdeveloped resources is important to our own national welfare." That fact furnishes something less than an adequate Christian motive, but it furnishes an initial base for social behavior.

The Editor awaits eagerly readers' comments on Mr. Seaver's article.

—F. E. J.